



THE UNITED STATES, JAPAN, AND LATIN AMERICA AND THE CARIBBEAN

Strengthening Democracy Through Economic Cooperation



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Latin American and Caribbean nations face a turbulent moment. The promise of democracy celebrated during the first Summit of the Americas in 1994 has waned for too many citizens whose circumstances have stagnated or worsened in recent years. Dramatic pandemic-related losses, increasing debt, rising interest rates, rampant crime and corruption, and political volatility driven by voters dissatisfied with the status quo heighten the attractiveness of non-traditional, potentially risky solutions. As the hemisphere heads toward the next Summit of the Americas, democracy itself is under increasing duress.

A commitment to renewed economic growth and broad-based development will strengthen regional democracies. Trade and investment cooperation is key to building a sustainable, resilient, and equitable future for the people of Latin America and the Caribbean. Economic cooperation through trade, investment, and respect for the rule of law not only supports economic growth but also democratic institutions. The United States and Japan are partners in these efforts, and seek to do more, strengthening democratic governance across the region while promoting greater regional participation and cooperation in the free and open international order for the Asia-Pacific-LAC region.

All economies require meaningful external partnerships built on shared values to achieve full potential. The United States and Japan continue to support transformation across the LAC region. With the third-largest economy in the world, extensive global presence, and deep U.S. connections, Japan is well placed to serve as a bridge between Asia and the Americas, helping to find actionable solutions for supply chain enhancement, trade agreements and technological development across the Western Hemisphere that serve all regions and ensure that benefits from nearshoring create new value chains in the Americas that strengthen domestic economies.

With this in mind, Americas Society/Council of the Americas is taking a leading role investigating options and opportunities for U.S.—Japan—LAC cooperation. As the premier regional policy and business organization, the Americas Society/Council of the Americas seeks to integrate LAC more fully into the global economy in a manner consistent with the open market, democratic values we share. Important post-pandemic options exist for LAC, and we believe that the pursuit of common goals with the United States, Japan, and other global democracies will provide the best path for long-run, sustainable, equitable growth and development.

THE BROADER CONTEXT

Russia's invasion and war on the democratic sovereign nation of Ukraine at the beginning of 2022 rattled the foundations of the open and free world. An unprovoked war started by an authoritarian country not only shattered a decades-long peace on the European continent, but also undermined the idea that democracy itself is somehow the "end of history" that need not be actively and routinely reinforced. Indeed, Latin America and the Caribbean have also seen democratic retreat and

disruption that threatens to erase gains made in the past decades that have strengthened institutions, improved the rule of law, increased trade and investment and reduced poverty for millions of people.

The pandemic may be receding, but it is not over. After two years, more than 6 million people have died worldwide. Covid 19 continues to upend lives and economies despite the progress made on vaccines and other health therapeutics. Vaccine inequality is still impacting recovery in many parts of the world. LAC in particular is still

woefully behind in vaccinating all population groups evenly. As of February 2022, out of the 13 countries and territories in the Americas that have not yet reached WHO's 2021 goal of 40% vaccination coverage, 10 are in the Caribbean.¹

Latin America and the Caribbean continue to face additional political and economic challenges. Global growth is expected to slow in 2022. After expanding by 5.5 per cent in 2021, the global output is projected to grow by only 4.0 per cent in 2022 and 3.5 per cent in 2023, according to the United Nations World Economic Situation and Prospects (WESP) 2022.² Regional growth is projected to soften, to 2.6 percent in 2022 and 2.7 percent in 2023, as fiscal and monetary policy is tightened, improvements in labor market conditions continue to be sluggish, and external conditions become less supportive.³ Inflation is a growing concern, particularly in a region that has seen repeated bouts of hyperinflation through the years, including Venezuela's current scenario. Ongoing supply chain issues along with rising consumer demand with economic reopening and the Ukraine conflict has increased food and energy prices, impacting governments, businesses, and the poorest citizens. As interest rates rise to combat inflation and debt service becomes more difficult, more countries may be tempted to find alternative sources of financing to reach development goals.

"Out of the 13 countries and territories in the Americas that have not yet reached WHO's 2021 goal of 40% vaccination coverage, 10 are in the Caribbean."

1 World Health Organization, Low vaccination rates in the Caribbean must be urgently addressed to stop the spread of COVID-19 says PAHO Director.

2 United Nations, World Economic Situation and Prospects 2022.

3 World Bank, Global-Economic-Prospects-January-2022-Regional-Overview-LAC.

Sources that ask few questions, play by different rules, and don't share the same values of freedom, rule of law and democracy will become increasingly attractive absent credible alternatives.

These realities have exacerbated preexisting issues of poverty and inequality, fertile ground for autocratic and populist figures from all sides of the political spectrum to appeal to the fears and uncertainty of a populace desperate for answers, leaders and models that promise stability, security, and an improving quality of life. Elections across the region have the potential to transform societies into stronger, more robust democracies or, alternatively, to push the region into a more autocratic direction with leaders who are more receptive to authoritarian models of governance and corruption. To be sustained, democracy must continually be renewed. Additional work is required, and in this regard, there is a real opportunity for Japanese companies, many which have been operating in the region for decades, to work closely with their U.S. counterparts and respective governments to foster regional growth and development.

Despite existing problems, there is a historic opportunity for the region to play a larger and more important role in the global economy in a manner that respects the rule of law, inclusive of the rights of marginalized communities and creates sustainable jobs for workers in the region, if the region can seize it. To do so, the region must take a hard look at what works and what doesn't, looking beyond the easy familiarity of commodities exports while adapting to new ways of governing and doing business. Innovation is critical, including a renewed commitment to creating conditions necessary for private sector-led investment and growth.

COOPERATION FOR A SUSTAINABLE, RESILIENT, AND EQUITABLE FUTURE

Japan, with a long history of technological innovation and engagement with the U.S. and other democracies, makes an ideal partner for LAC. Japanese businesses are world leaders in diverse fields ranging from agriculture equipment, automobiles, electronics, and telecommunications to finance and pharmaceuticals, natural areas for cooperation where LAC is destined to become a larger player in providing the raw materials needed for the transition to a cleaner, sustainable energy future. Particularly exciting sectors for investigation include specific measures to increase and improve

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trade relationships based on shared values; deepening digital and technological cooperation to empower digital transformation in the Americas; and the agriculture, automobile, clean energy, and health sectors. Improving economic cooperation between Japan and LAC on these issues is central to enhancing supply chains within the region, with the United States, and across the Asia-Pacific-LAC region.

Countries in the Western Hemisphere offer far more than commodities. Supply chains strained by the pandemic highlighted both the necessity and the potential for greater manufacturing cooperation across the Americas. LAC is already home to Japanese manufacturing and has room to grow. There are countless opportunities for near shoring and reshoring. Meanwhile, new and existing trade agreements have the potential to deepen cooperation between the United States, Japan, and Latin America. By drawing investment that supports broad-based economic development, trade and investment facilitation agreements can support renewed growth, a key element in the fight for sustainable democratic governance.

In the first instance, of course, existing agreements must be honored and enforced. Existing agreements can also be updated to incorporate, for example, elements of the digital economy that did not even exist when the original agreements were negotiated and adopted. At the same time, for agreements to be fully effective, governments must see them as the beginning point for competitiveness not the endpoint. Free trade agreements do not guarantee economic growth and success, but rather they make success more likely to the extent governments also take steps in

parallel that make their own countries hospitable to commercial activities undergirded by the transparent and enforceable rule of law.

Unfortunately, corruption continues to be a major issue in the region at all levels of society. The 2021 Capacity to Combat Corruption index (CCC), a tool developed by the Americas Society/Council of the Americas to assess Latin American countries’ ability to detect, punish and prevent corruption, shows clearly that there has been

“State and private sector corruption exacerbates poverty and inequality by taking away taxes and state resources needed for social and development programs.”

backsliding in numerous countries during the pandemic. Tangible steps are required to remove this important barrier to trade and investment in the region, and also development. State and private sector corruption exacerbates poverty and inequality by taking away taxes and state resources needed for social and development programs. More needs to be done to strengthen institutions that combat corruption as an issue of economic competitiveness and democratic strengthening.

For its part, Washington can do better in supporting trade and investment-enhancing initiatives across the LAC region. Re-engaging on the TPP/CPTPP would be an important place to begin, but updating CAFTA-DR and linking parts of the region to North Americas through USMCA would dramatically enhance regional competitiveness and the attraction of supply chains relocating from outside the region. As well, new initiatives with Brazil, Ecuador, and Uruguay, among others, should be urgently considered, as should support for expansion of the Pacific Alliance to include non-Latin American nations as full partners. Other steps too, including a region-wide digital trade and investment initiative to promote both economic and strategic interests in the face of the China challenge in the Americas. In the run-up to the Summit of the Americas, the time to act is now.

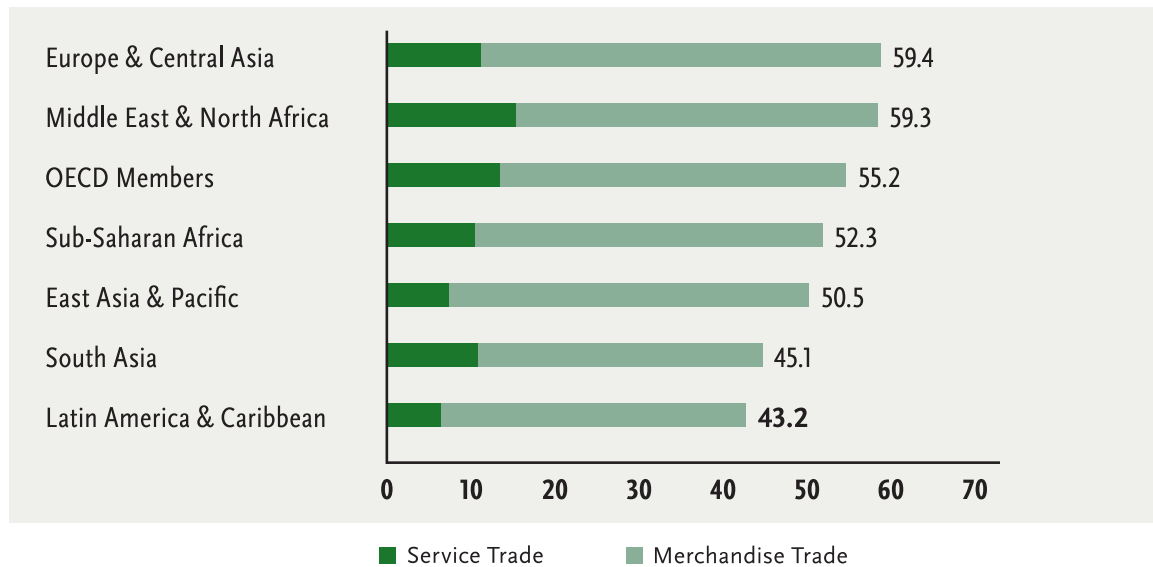
STRENGTHENING DEMOCRACY THROUGH TRADE AND INVESTMENT

Trade and investment have the potential to transform the region in the wake of the pandemic if pursued with willing partners who share values and interests to create and maintain a free and open international order. On a comparative basis, LAC is among the least economically integrated region in the global economy despite steady growth in merchandise exports in the last decade according to the World Bank.⁴ Trade in services in particular offer impressive opportunities.

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4 World Bank, Trade Strategy in Latin America and Caribbean, 2022.

GOODS AND SERVICES TRADE (AS % OF GDP) 2010–2019 average



Source: World Development Indicators

For example, the services sector is woefully underdeveloped even compared to the Middle East and North Africa. The lack of integration into the global economy forces citizens of the region to miss out on economic opportunities created through technology.

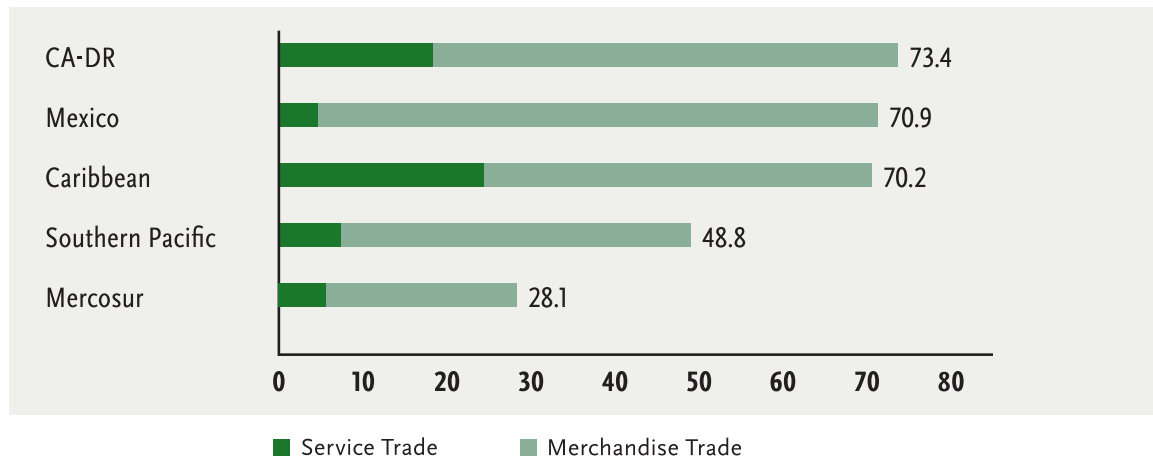
“The lack of integration into the global economy forces citizens of the region to miss out on economic opportunities created through technology.”

Increased trade integration has the potential to lift millions out of poverty in the region, reducing social and political cleavages that have plagued the region for many years.

Within LAC itself, performance varies greatly across sub-regions, shaped by country trade policy choices.⁵ Countries need only look to their neighbors to see opportunities to boost interregional trade. One particular advantage: much of the region shares common languages and similar cultures and histories which makes it easier to facilitate trade at the subregional level. Obstacles include inadequate infrastructure, weak rule of law, dissimilar regulations, cyber and personal security concerns, and complicated border requirements, among others.

⁵ World Bank, Trade Strategy in Latin America and Caribbean, 2022.

GOODS AND SERVICES TRADE (AS % OF GDP) 2010–2019 average



Source: World Development Indicators

The region has yet to live up to its trade potential. Full integration into global value chains is a rich area of opportunity. The region can do more to participate at every level in the Global Value Chain (GVC). GVC linkages are currently limited and are geared toward commodities, with “limited manufacturing” in a few countries.⁶ There is ample room to transition to “advanced manufacturing and services” and “innovative activities.”

TECHNOLOGY, INNOVATION, AND TRADE

Digitization is key to a more prosperous future. Many roadblocks are holding the region back. The World Bank notes that less than 50% of LAC’s population has fixed broadband connectivity, and only 9.9% has high-quality fiber connectivity at home.⁷ During the pandemic, large percentages of students missed school because they did not have reliable, affordable access to internet at home during national and regional lockdowns. This lost learning will impact the region at both the micro and macroeconomic levels for years to come, and may never be recaptured, restricting economic growth potential while increasing inequality in a region that already suffers from the world’s worst equality indicators.

6 World Bank, Trade Strategy in Latin America and Caribbean, 2022.

7 World Bank, Poor digital access is holding Latin America and the Caribbean back. Here’s how to change it, 2022.

“Only 4 out of 10 rural Latin Americans have connectivity options compared with 71% of the population in urban areas.”

This could very well have political consequences, as well. While 87% of the population lives within range of a 4G signal, actual usage and penetration remains low (37%).⁸ There is a substantial risk the urban/rural divide expands even further because rural communities have less options for digital connectivity. Only 4 out of 10 rural Latin Americans have connectivity options compared with 71% of the population in urban areas.⁹

Beyond education and health, digitization is needed for social and financial inclusion and access to online public services. The consequences are known. Failing to invest in digitization not only harms education outcomes, health, and trade, it may also ultimately damage democracy itself.

CONCLUSION

Since the first Summit of the Americas in Miami, in 1994, LAC has lost two democracies (Nicaragua and Venezuela) and others are deeply challenged. With the exception of Venezuela, once Latin America’s wealthiest nation, several of these others are among the poorest, not just regionally but worldwide. Poverty undermines democracy in a myriad of ways. A growth agenda tied to values promotion supports democratic governance by drawing investment, increasing both income and wealth, improving rule of law, supporting social and environmental development initiatives, and a host of other benefits. Meantime, supporting democratic governance at the global level is fundamental for the vision of a free and open international order.

LAC faces significant headwinds coming out of the Covid 19 pandemic and populations are restless. Many are seeking alternatives, including those that are untested and even risky. Democratic institutions are under strain. Now is the time to recommit to a robust regional democracy agenda. Doing so will require a renewed effort to expand regional trade and investment as a means to underwrite regional growth.

Both the United States and Japan are willing and able partners in this discussion. Global and regional challenges highlight the need for international cooperation based on shared values of freedom, economic openness and trade, and democracy. Coordination and cooperation are essential in expanding trade in LAC and

8 World Bank.

9 World Bank.

ultimately security and prosperity for a sustainable, resilient future. Meanwhile, building and expanding current trade frameworks requires the active participation of the private sector and international partners to help identify policy limitations and support the national interests of like minded parties. Finding areas to improve investment relationships is crucial in providing opportunities for the citizens of the region and partners who share mutual interests in deepening digital and technological cooperation and strengthening democracy. Partners working in good faith can achieve gains that support the interest of all parties. Economic cooperation is key. With renewed commitment and ideas by the United States, Japan, and LAC partners, relationships can be expanded in a way that supports the needs and interest of all parties in a changing world.

Americas Society is the premier forum dedicated to education, debate, and dialogue in the Americas. Its mission is to foster an understanding of the contemporary political, social, and economic issues confronting Latin America, the Caribbean, and Canada, and to increase public awareness and appreciation of the diverse cultural heritage of the Americas and the importance of the inter-American relationship.

Council of the Americas is the premier international business organization whose members share a common commitment to economic and social development, open markets, the rule of law, and democracy throughout the Western Hemisphere. The Council's membership consists of leading international companies representing a broad spectrum of sectors, including banking and finance, consulting services, consumer products, energy and mining, manufacturing, media, technology, and transportation.



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